

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AID-05 EB-08 TRSE-00 STR-04 OMB-01 CEA-01
COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 FEA-01
/090 W

-----111545 120424Z /12

R 100340Z AUG 77

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 3978

INFO USCINCEUR

C O N F I D E N T I A L SECTION 1 OF 2 TEHRAN 7074

USCINCEUR FOR POLAD

E.O. 11652: GDS

TAGS: PINT ECON IR

SUBJ: SHAH'S COMMENTS ON ECONOMIC GROWTH AND PLANNING IN IRAN

REF: (A) TEHRAN 6991, (B) TEHRAN 7043

1. THE SHAH'S REMARKS TO NEWLY NAMED PRIMIN JAMSHID AMOUZEGAR AND HIS CABINET AT NOWSHAHR ON AUG 7 WERE PRINCIPALLY ON ECONOMIC THEMES AND WITH MAJOR EMPHASIS ON WHAT HE THOUGHT THE GENERAL STRUCTURE OF THE 6TH DEVELOPMENT PLAN (WHICH BEGINS MARCH 21, 1978) OUTHT TO LOOK LIKE. A SUMMARY OF THE MAIN POINTS MADE BY THE SHAH IN HIS ADDRESS FOLLOWS:

2. THE SHAH SAID THAT BEGINNING NOW AND CONTINUING ON INTO THE 6TH PLAN THE NATION'S DEVELOPMENT EFFORT WILL BE AIMED AT "ABSORBABLE" RATES OF GROWTH RATHER THAN THE "UNMATCHED GROWTH RATES" OF THE RECENT PAST. IRAN'S RECENT PERFORMANCE, WHILE "UNMATCHED" IN THE WORLD NEVERTHELESS HAD CAUSED "DISLOCATION AND BACKLASH". HE WENT ON TO SAY THAT A 20 PERCENT GROWTH RATE GOING HAND IN HAND WITH 25 PERCENT INFLATION RATE "WOULD RAVISH MOST OF
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THE FRUITS OF DEVELOPMENT". A RERUN OF THIS RECENT "UNPARALLELED DEVELOPMENT PERFORMANCE" SHOULD NOT BE EXPECTED, HE SAID.

3. TURNING TO THE MECHANICS OF ECONOMIC PLANNING, THE SHAH SAID THAT THE PLAN AND BUDGET ORGANIZATION (PBO) HAS ACTED AS A "BRAKE ON PROGRESS" AND WOULD NOT CONTINUE TO OPERATE AS IN THE PAST. THE PBO'S BUDGET SECTION (OR TREASURY) WILL BE TRANSFERRED TO THE

MINISTRY OF ECONOMIC AFFAIRS AND FINANCE. HENCEFORTH EACH MINISTRY WILL BE ALLOWED TO DRAW ITS OWN PROJECTS WITHIN THE GUIDELINES OF THE NATION'S DEVELOPMENT STRATEGY. THE NATION'S DEVELOPMENT PHILOSOPHY WILL REMAIN THE SAME AS BEFORE, HE SAID: WITHIN 12 YEARS IRAN WILL BECOME AS DEVELOPED AS WESTERN EUROPE IS NOW AND WITHIN 25 YEARS IRAN WILL RANK AMONG THE 5 MOST ADVANCED COUNTRIES IN THE WORLD. A GREATER COORDINATION OF DEVELOPMENTAL EFFORT MUST BE OBTAINED TO MAINTAIN EQUITABLE DEVELOPMENT AND AVOIDANCE OF "ADVANCEMENT IN ONE PLACE AND LAGGING PERFORMANCE IN ANOTHER".

4. THE SHAH CITED IRAN'S CURRENT POWER SHORTAGE, WHICH HAS BEEN MARKED BY DAILY POWER CUTS IN TEHRAN FOR THE LAST SEVERAL WEEKS, AS A COMBINATION OF "BAD LUCK (DROUGHT) AND INCOMPETENCE OF FOREIGN CONTRACTORS AND PERHAPS ALSO LACK OF FORESIGHT, E.G., NO EMERGENCY NETWORK CONNECTING THE SOUTHERN AND NORTHERN GRIDS". IN THE FUTURE, SAID THE SHAH, THE RESOURCES OF THE ARMED FORCES WOULD BE CALLED ON TO DEAL WITH SUCH CONTINGENCIES.

5. THE NATION'S GROWTH RATE, HE SAID, SHOULD BE KEPT AT A HIGH ENOUGH RATE TO ABSORB NEW ADDITIONS TO THE LABOR FORCE. HALF OF IRAN'S POPULATION IS UNDER THE AGE OF 15 AND THERE WILL SOON BE A STRONG INFLUX OF YOUNG MEN AND WOMEN INTO THE LABOR FORCE. HE NOTED THAT THE MINISTRIES OF EDUCATION AND SCIENCE AND HIGHER EDUCATION WILL BE MERGED. THE UNIVERSITIES WILL HAVE GREATER AUTONOMY. EDUCATION WILL CONTINUE TO BE FREE AND OF A QUALITY COMPARABLE WITH

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THE BEST IN THE UNITED STATES AND EUROPE BUT WITHOUT CERTAIN NEGATIVE SOCIAL FEATURES PRESENT IN WESTERN EDUCATION. TWO NEW PRINCIPALS OF THE SHAH-PEOPLE REVOLUTION ARE NOW BEING PREPARED AND WILL BE ANNOUNCED IN ABOUT 12 DAYS TIME, BRINGING THE TOTAL NUMBER OF PRINCIPALS TO 19.

6. AT THE CLOSE OF HIS REMARKS THE SHAH REAFFIRMED HIS VIEW THAT PARTICIPATION IN RASTAKHIZ PARTY ACTIVITIES IS POSSIBLE FOR ALL IRANIANS EXCEPT THOSE WHO HAVE "THEIR OWN SPECIAL IDEAS" OR WHO ARE GUIDED FROM ABROAD. SINCE THE GOVT IS ONE OF "NATIONAL UNITY" PARTY WINGS ARE ALLOWED TO ENGAGE IN DEBATE BUT DECISIONS MADE AT THE GOVERNMENTAL LEVEL APPLY EQUALLY, WITHOUT FAVORITISM, TO BOTH WINGS, ACCORDING TO THE SHAH. REPEATING THEMES ENUNCIATED 2 DAYS EARLIER ON THE OCCASION OF CONSTITUTION DAY, THE SHAH RECOUNTED

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-----063856 120424Z /12

R 100340Z AUG 77
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INFO USCINCEUR

C O N F I D E N T I A L SECTION 2 OF 2 TEHRAN 7074

USCINCEUR FOR POLAD

TWENTIETH CENTURY ADVERSITIES FACED BY IRAN, DRAWING FROM THIS
RECITAL AN INDICTMENT OF OPPOSITION GROUPS OF THE LEFT AND RIGHT
WHICH RECEIVED SUPPORT OF EITHER COMMUNIST OR WESTERN POWERS. THE
SHAH CHARGED THAT IRANIAN DISSIDENTS OPERATING ABROAD NOW ARE
COMPOSED OF THE SAME TRAITOROUS ELEMENTS OF THE RIGHT AND LEFT THAT
OPERATED WITHIN IRAN IN THE PAST.

7. COMMENT: THE SHAH'S OBSERVATIONS ON THE NEED FOR MORE BALANCED
GROWTH AND AT RATES WHICH CAN BE ABSORBED BY THE COUNTRY WITH-
OUT ATTENDANT DISLOCATIONS (E.G.,
INFLATION; INFRASTRUCTURE BOTTLENECKS) CAN BE SEEN AS A CON-
TINUATION ON THEMES WHICH THE MONARCH HAS DWELT UPON OVER THE PAST
YEAR. THE PROPOSITION THAT IRAN NEEDS A LOWER, MORE "ABSORBABLE"
RATE OF GROWTH HAS LAREADY FOUND RESONANCE IN SOME TENTATIVE
THINKING WITHIN THE PBO ON THE 6TH DEVELOPMENT PLAN. ONE DOCUMENT
FROM THE PBO (DATED JULY 1976) WHICH THE EMB HAS JUST RECEIVED
POSTULATES A GROWTH SCENARIO WITH A 12.8 PERCENT ANNUAL GROWTH
RATE. IT IS NOTEWORTHY, HOWEVER, THAT THE PRINCIPAL AUTHOR OF
THIS PAPER TOLD EMBOFFS RECENTLY THAT THE PBO WAS NOW THINKING OF
A PER ANNUM GROWTH RATE PROJECTION OF 7.5 PERCENT AND ANNUAL
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INFLATION AT 12 PERCENT (SEE MEMCON 7/31/77 TO NEA/IRN). THIS
OFFICIAL READILY ADMITTED TO DISAGREEMENTS WIT IN THE GOI AS TO
WHAT THE 6TH PLAN GROWTH RATE PROJECTION OUGHT TO BE. NOR
DID THE SHAH IN HIS REMARKS QUANTIFY WHAT HE THOUGHT AN
"ABSORBABLE" RATE OF GROWTH SHOULD BE. THE PBO PAPER ALSO OPTS
FOR A REDUCTION IN 6TH PLAN GROWTH TARGETS (ASSUMING CONTINUING
MANPOWER SHORTAGES) RATHER THAN RESORTING TO IMPORTING LABOR WHICH

THE PAPER TERMED "AN EXPENSIVE AND EXPEDIENT PANACEA."

8. WHATEVER FIGURE FINALLY EMERGES AS THE 6TH PLAN GROWTH TARGET IT SEEMS EVIDENT THAT THE ROLE OF THE PBO IN ITS ATTAINMENT WILL BE CONSIDERABLY LESS THAN IN THE LAST FEW YEARS. PBO'S BUDGET OFFICE, THE SINGLE MOST IMPORTANT BUREAUCRATIC INSTRUMENT WITHIN THE GOVT INsofar AS THE ALLOCATION OF NON-DEFENSE PUBLIC SECTOR RESOURCES IS CONCERNED, WILL NOW BE GIVEN TO THE MINISTRY OF ECONOMIC AFFAIRS AND FINANCE. THE PERSONALITY OF THE PLAN ORGANIZATION'S NEW HEAD, MINISTER OF STATE YEGANEH, SEEMS WILL SUITED TO THE ORGANIZATION'S NEW, ESSENTIALLY NON-OPERATIONAL CHARTER. YEGANEH IS A QUIET STUDIOUS TYPE WHO PERHAPS FUNCTIONS BEST IN IVORY-TOWER SITUATIONS. A CAPABLE FINANCIAL ECONOMIST, YEGANEH IS NOT NORMALLY THOUGHT OF AS AN IDEA MAN OR AS A PARTICULARLY DYNAMIC ADMINISTRATOR. PLAN ORG IN IRAN HAS HAD ITS UPS AND DOWNS OVER THE YEARS AND ONCE AGAIN SEEMS TO BE GOING INTO APTIAL ECLIPSE.

9. IT WAS SOMEWHAT SURPRISING GIVEN RECENT HISTORY TO NOTE THE SHAH'S STATEMENT ON THE SEEMINGLY GREATER AUTONOMY WHICH THE SEVERAL MINISTRIES ARE ONCE AGAIN TO ENJOY IN PROJECT DEVELOPMENT. MOST OBSERVERS HERE BELIEVE THAT THE FREE-WHEELING SPENDING BY THE VARIOUS MINISTRIES IN 1974 AND 1975, WITHOUT ANY EFFECTIVE RESTRAINTS IMPOSED BY AN OFTEN CIRCUMVENTED PBO, WAS ONE OF THE MAJOR REASONS FOR THE OVERHEATING OF THE ECONOMY WHICH OCCURED IN THIS PERIOD AND WHICH ULTIMATELY REQUIRED RATHER SEVERE REMEDIAL
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ACTIONS BY THE GOVT IN MID-1975. THE GOVERNMENT'S INABILITY TO FINE TUNE THE PLANNING AND DECISION MAKING PROCESS WAS SUBSEQUENTLY SEEN IN PBO'S EMERGENCE SINCE MID-1975 AS THE PRINCIPAL NAY-SAYER IN THE GOVT. DOZENS OF PROJECTS, INCLUDING SOME THE US-IRAN JOINT COMMISSION CONTEXT, WERE ABOLISHED, CUT BACK OR PUT ON THE BACKBURNER BY PBO. MANY PROJECTS LANGUISHED UNFUNDED AND THE POSTPONEMENT OF START-UPS INEVITABLY ENTAILED COST INCREASES LATER ON. PBO CAME TO BE SEEN AS A MAJOR BOTTLENECK BUT IT WAS NATURALLY THOUGHT THAT PBO'S DIRECTOR HAD HIS SOVEREIGN'S CONCURRENCE IN WHAT HE WAS DOING. DOUBTLESS THE MINISTRY OF ECONOMIC AFFAIRS AND FINANCE HAD A HAND IN THIS THROTTLING DOWN PROCESS BUT PBO GOT MOST OF THE BLAME. THE SHAH IN HIS REMARKS TO THE NEW CABINET CLEARLY FIXED THE BLAME ON PBO AND THE DEPARTURE OF PBO'S FORMER DIRECTOR, ABDOL-MAJID MAJIDI, SEEMS IN RETROSPECT A NATURAL OUTCOME. IT REMAINS TO BE SEEN, OF COURSE, JUST HOW MUCH FREEDOM OF ACTION THE MINISTRIES WILL ONCE AGAIN HAVE AND HOW FLEXIBLE WILL BE THE 6TH PLAN GUIDLINES WITHIN WHICH THEY ARE SUPPOSED TO OPERATE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, CABINET, SPEECHES
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Copy: SINGLE
Sent Date: 10-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977TEHRAN07074
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770290-0875
Format: TEL
From: TEHRAN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770874/aaaackxo.tel
Line Count: 221
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a722a45c-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 TEHRAN 6991, 77 TEHRAN 7043
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 17-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1640173
Secure: OPEN
Status: NATIVE
Subject: SHAH'S COMMENTS ON ECONOMIC GROWTH AND PLANNING IN IRAN
TAGS: PINT, ECON, IR, (PAHLAVI, MOHAMMAD REZA)
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/a722a45c-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009